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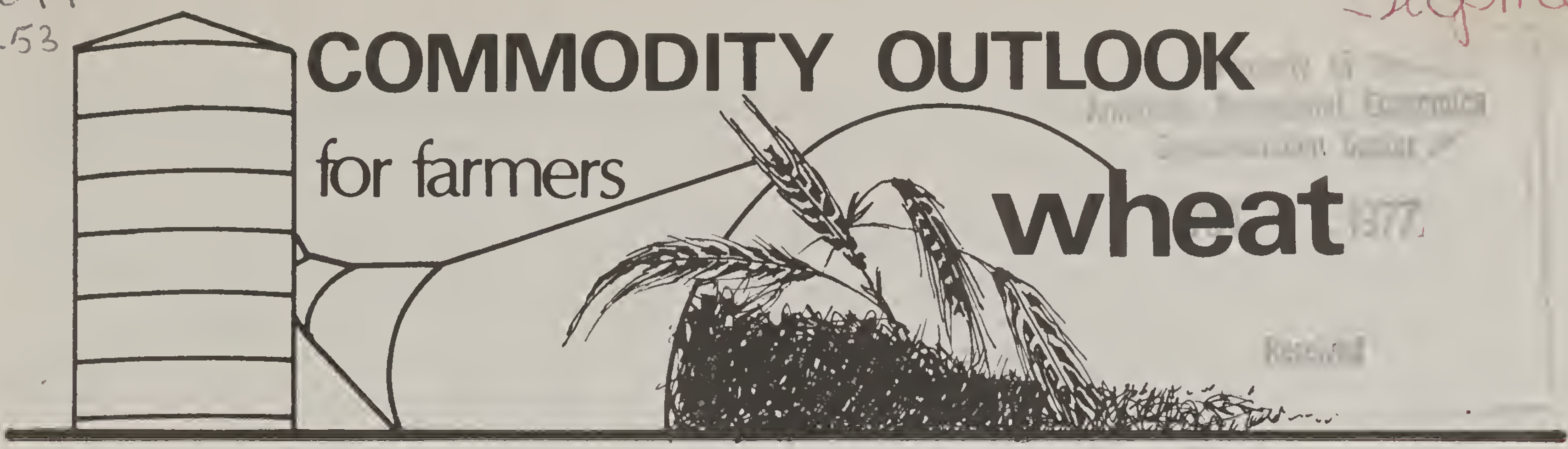

COMMODITY OUTLOOK for farmers wheat

How to Get the Most Out of Your Wheat Crop. With wheat prices depressed by record U.S. and world supplies, the outlook for wheat growers is anything but bright, despite some recent price improvement. There *are* things you can do to lift your wheat income. You also can put yourself in better shape to cash in on potentially stronger markets later, especially in light of the new farm law.

That's what this *Wheat Letter* is all about. It's part of a regular new USDA service designated by Congress. It aims to give you timely information to help you make more profitable decisions about marketing your products and working your farm or ranch. If you find it's helpful and want to keep getting it free, return the filled-in address form.

Deficiency Payments To Bolster Incomes. There are two target rates for 1977 wheat. Deficiency payments at the \$2.90 level will be based on your 1977 plantings or acreage allotment—whichever is smaller. If you didn't plant all of your allotment, the unplanted portion qualifies for payments at the \$2.47 level.

Take the \$2.90 rate first. The deficiency payment rate will be the difference between the \$2.90 target and either (1) the average U.S. farm price from June through October or (2) the \$2.25 loan rate—whichever is higher. Since prices will likely average below the loan rate, figure on 65¢ payments.

Let's assume your allotment was 1,000 acres but you planted only 900, and your farm's program yield was 30 bushels per acre. Your payment would be \$17,550. In addition, you would collect payments of \$660 on the 100 allotted acres you didn't plant and an apparent rate of 22¢. So your total deficiency payments would be \$18,210.

To get these payments, you must apply for them at your ASCS office. They'll be paid after November 1.

Marketing Decisions: To Sell or Store? If you haven't already sold your 1977 wheat, go over your marketing options carefully. This may help you hold wheat for higher prices and still provide money for current operating expenses. The option you pick depends on your storage space, how much money you have and can risk, and your price expectations. Here are some marketing alternatives to consider:

- Sell for cash now. But you'll probably miss the high for the year. Prices are above harvest lows, may rise further.
- Contract for deferred pricing if you expect prices to improve.
- Sell wheat for cash and buy futures if you expect prices to rise but lack adequate storage space.
- Store for later sale. USDA's loan, purchase, storage facility, and grain reserve programs can help (details below). An important question is whether you believe prices will rise enough to cover storage and interest costs.

Plan Your Marketing Strategy. Talk to your grain marketing specialists when planning your strategy, both for this and next year's crops. And you'll want to consider these USDA programs:

- If your 1976 wheat crop is under loan, or if you sign a purchase agreement with your ASCS

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office by next Feb. 28, you can put the wheat in the 3-year reserve program. Then you will be paid 20¢ a bushel in advance for the first year of storage, either on or off the farm; subsequent rates could be higher.

- You can repay your loan without penalty when the national average farm price reaches 140 percent of the current loan rate or you can wait until the price hits 175 percent, at which time the loan comes due. In either case, prices aren't likely to reach these levels soon.
- You can put 1977 wheat under loan and be assured of at least the local loan rate. As loans mature, 1977 wheat also will become eligible for conversion to the extended reserve program.
- The annual interest rate for USDA loans on 1977 wheat has been reduced to 6% (averaging 13½¢ per bushel per year). This reduced rate also applies to any 1976 wheat under loan.
- If you want a USDA loan to build storage facilities or buy grain drying equipment, you can now borrow up to $50,000. The minimum down payment has been halved—to 15% of the loan—and the repayment time has been stretched from 5 to 8 years. The annual interest rate has been reduced to 7%, and also applies to loans made before the rate was lowered.

Farm Law Can Influence Your Cropping Plans. The new 4-year farm law has provisions for *set aside* and *deficiency* payments. But there are major changes in how programs will operate, which will affect your planting decisions. USDA has indicated a 20-percent wheat set aside, and a decision on feed grain set aside will be announced later for 1978 crops. Here are major points to consider:

- If you plant wheat, you must comply with all set-aside requirements to be eligible for USDA loans, purchase agreements, and payments (including disaster program payments) on any eligible commodities. In other words, if there is a set-aside for feed grains and wheat and you produce both, you can't be in one program and not the other. Also, if you don't participate in the wheat set-aside but do plant wheat, you lose program benefits for crops which have no set-aside requirements.
- The 1978 wheat loan rate will remain at $2.25 per bushel unless the average U.S. farm price for 1977/78 exceeds $2.36 per bushel. In this unlikely event, the rate would rise to $2.35.
- The wheat target price rises to $3.00 if the 1978 crop equals or exceeds 1.8 billion bushels, or $3.05 if it is below 1.8 billion bushels. (The 1977 harvest is estimated at 2.03 billion.)
- Wheat acreage to be set aside must equal 20% of the acreage actually planted for harvest for grain. Fallowed land cannot be counted as set-aside acres; nor counted as planted acreage.
- Set-aside acreage must have an approved cover crop such as forages or small grains not allowed to mature. Although set-aside acreage need not be designated until spring, winter-grazed wheat is not expected to qualify as set-aside.
- Target price payments will be made on a percentage of your 1978 plantings (not less than 80%) and the farm program yield set by your county ASCS office.
- If you reduce 1978 wheat acreage planted for grain harvest 20% from 1977 and meet all set-aside requirements, your entire acreage will be eligible for target price payments.
- The total of your "normal crop acreage" (NCA) must be reduced by the amount of the set-aside. Basically, your NCA is the land that was in designated crops in 1977, adjusted for abnormal situations. These crops will be announced later. Fallow land probably will not be counted as planted acreage.
- Limitation on all payments a person may receive for all crops in 1978 is $40,000. Payments for disaster, certain resource adjustments, and public access for recreation do not count against the limit.

Take Time to Work it Out. Spend some time in budgeting through your various options. Unless there is a major crop failure next year somewhere in the world, it looks like prices in 1978/79 will continue to run near loan levels. So take this prospect into account when you budget through to see what returns you'd have if you go in or stay out of the 1978 program, and compare returns of various levels of planting with set-aside.

With the pessimistic price outlook, *target price payments become an important income factor* in

deciding whether to participate in the program. Also, eligibility for the loan, reserve, and disaster programs will bear on your 1978 set-aside decision.

Be sure to include alternative crops, including hay and forage, in your evaluation. Although still tentative, use a 10% feed grain set-aside as a strong probability.

Feed grain loans for 1977 are $2.00 per bushel for corn, $1.90 for sorghum, $1.63 for barley, and $1.03 for oats. The 1978 levels will be announced later. The 1978 target prices per bushel consistent with new legislation are $2.10 for corn, $2.39 for sorghum, and subject to the Secretary of Agriculture's determination, may be $2.33 for barley and $1.81 for oats. The 1978 cotton loan and target prices apparently will be about 46¢ and 52¢ per pound.

Remember, you must comply with all set-aside requirements to receive program benefits, and payments will be based on actual plantings for harvest for grain.

Visit your county ASCS office for more program details and examples of how set-aside provisions will work on your farm.

Why Wheat Supplies Have Reached New Records. The 1977 U.S. wheat harvest is 2.03 billion bushels. It marks the third bumper crop in a row, thanks to timely rains in major areas except the Pacific Northwest. Still, with less acreage, total wheat production is down somewhat from last year's record in spite of an increase in the Hard Red Winter Wheat (HRW) crop.

Foreign wheat production hit a record high in 1976, and as a result, last year's U.S. exports of 950 million bushels were the lowest since 1971/72. Thus, June 1 U.S. carryover stocks rose to 1.1 billion bushels—the largest since 1963. With no big pickup expected in 1977/78 total use, U.S. stocks will likely rise further next May 31.

The large 1977 U.S. crop means that wheat supplies for this marketing year hit a record 3.1 billion bushels. And HRW accounted for a big part of that record.

Wheat feeding could double last season's. But even then, it would use only a little over a tenth of this year's crop.

U.S. Wheat Supply and Demand

	Year beginning June		
	1975/76	1976/77	1977/78 proj.
	Million bushels		
Beginning stocks	435	664	1,109
Production. . . .	2,135	2,147	2,030
Imports.	2	3	2
Total supply	2,572	2,814	3,141
Food	559	553	558
Seed	95	88	80
Feed	81	114	235
Exports.	1,173	950	1,050
Total use. . . .	1,908	1,705	1,923
Ending stocks . .	664	1,109	1,218
	Dollars per bushel		
Farm Price	3.55	2.85	2.10-2.30

Record World Wheat Supplies. Although crop prospects have slipped recently, growing conditions have generally been good, so another large world wheat crop is being harvested. With sharply higher beginning stocks, there will likely be a record world supply this season.

World highlights so far include: (1) the emergence of Turkey and India as exporters, (2) a large wheat harvest of uncertain quality in the Soviet Union, (3) lower milling quality of Europe's and Canada's crops, caused by wet weather, (4) heavy export bookings by Canada, Australia, and Argentina for 1977/78 delivery, (5) China's reduced harvest and unusually large purchases, (6) reduced plantings and crop prospects in Canada and Argentina, and (7) sharply reduced harvests and increased import requirements in most countries ringing the Mediterranean.

So what does all this add up to for the world wheat market? Although still unclear, trade could rise about 250 million bushels, (to a near-record 2.5 billion bushels), mainly because of larger purchases by the People's Republic of China, Western Europe, North Africa, and the Middle East.

As it stands now, the U.S. could pick up about a third of this modest increase. India, our biggest customer in recent years, will buy little because of its recent bumper crops and record food grain stocks. On the other hand, we'll likely boost exports to Latin America, Western Europe, and North Africa.

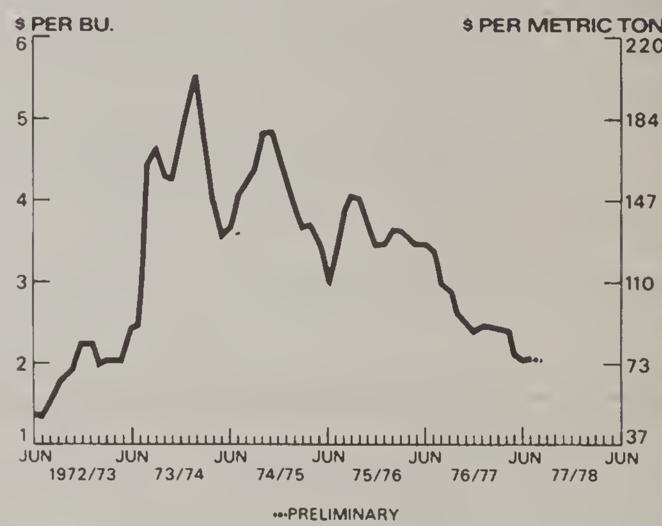
Another Rough Year Expected. Mounting wheat stocks for the fourth season in a row, coupled with a big feed grain output, spell another rough year for grain prices. Complicating matters are

wider than normal wheat price spreads between the farm and major markets as a result of mounting stocks and limited storage space.

In your region, as you know, new crop prices were running 10—15% under local loan rates at harvest. Early movement into the loan program has been very heavy. But where farm storage was hard to come by, some growers sold rather than pay off-farm storage costs.

Once the harvest supplies were squared away, prices began to strengthen with heavy use of the loan and 3-year reserve program. This is consistent with the pattern in years when prices were near loan levels and with futures markets.

U.S. WHEAT PRICES RECEIVED BY FARMERS



Other price-influencing factors to watch: follow-up details on farm programs, U.S. feed situation, crop developments abroad, and foreign purchases. Foreign sales are well behind the pace of recent years, indicating the possibility of more than usual buying later in the season. It would take a strong kicker from exports, however, to push prices up sharply.

Although such a push *could* come from a major shortfall in the world grain crop, at this time such a prospect is unlikely. You'll want to examine your marketing alternatives carefully.

Gloomy as the outlook generally sounds, there's a point to bear in mind. In the event of any unexpected increase in world wheat demand in 1977/78, the United States would probably be called upon to fill the bill, as other exporters are already heavily committed. For example, Soviet grain buying could continue to pick up if their harvest deteriorates further. Such a pickup in demand would be translated into higher U.S. wheat prices.